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RUEHNE/AMEMBASSY NEW DELHI 0404  
RUEHKA/AMEMBASSY DHAKA 9725  
RUEHIL/AMEMBASSY ISLAMABAD 6661  
RUEHKT/AMEMBASSY KATHMANDU 4721  
RUEHKP/AMCONSUL KARACHI 2086  
RUEHCG/AMCONSUL CHENNAI 7225  
RUEHGV/USMISSION GENEVA 1633  
RUEATRS/DEPT OF TREASURY WASHDC  
RUEHLMC/MILLENNIUM CHALLENGE CORP

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SUBJECT: COLOMBO PORT TO EXPAND AS MUCH AS 300 PERCENT

¶1. On December 18, 2006, President Mahinda Rajapaksa officially inaugurated the commencement of the Colombo Port Expansion Project (CPEP) at an opening ceremony attended by the U.S. Ambassador. Cited as the largest development project undertaken by Sri Lanka to date, the Government of Sri Lanka (GSL) hopes the Colombo port will become South Asia's premier transshipment location. The CPEP, upon its completion by 2010, will ultimately triple the port's existing capacity and establish itself as the first port in South Asia to handle 18,000 TEUs (Twenty-foot Equivalent Units) ships. According to the Sri Lanka Port Authority (SLPA) the port will soon reach its current capacity of 4 million TEU's, with ongoing transshipment volumes expected to push 2006 volumes up to 3 million TEUs this month.

¶2. The CPEP will add four container terminals, each with four berths. The first terminal will become operational in 2010 and have a nominal capacity of 2.4 million TEUs, while the other three will be built as market demands increase. To accommodate deeper vessels, the harbor basin will be deepened to 18 meters with an access channel depth of 20 meters. Once completed, the port will have the capacity to accommodate around 12 million TEUs each year.

¶3. In the first phase, the CPEP will build the 3-kilometer breakwater, dredge the harbor basin, and begin construction of the first container terminal. The Asian Development Bank will provide a loan of USD 225 million to help finance this first stage of construction, estimated to cost USD 615 million. The container terminals will be constructed jointly with the private sector. Tender documents will be issued internationally as early as December 26, with the construction tender to be awarded around July 2007. Construction, initially delayed due to lack of funding, is scheduled to commence the latter half of 2007, with an anticipated construction period of 39 months.

¶4. With the U.S. as Sri Lanka's single largest export destination, the GSL agreed to build a dedicated dry-port facility for US bound exports. The dry port will be operated as a public-private partnership. A call for tenders for private management of the complex will be issued in early 2007.

Blake